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CENTRAL INTELLIGENCE AGENCY
OFFICE OF CURRENT INTELLIGENCE
8 February 1955

TO : Deputy Director (Intelligence)
SUBJECT: The 1955 Soviet Budget

Summary

The 1955 Soviet budget, announced on 3 February, indicates that the Soviet government, having re-evaluated its internal and international position, now intends to return to the 1952-1953 level of appropriations for defense, continue to increase allocations for heavy industry and transportation, and make minor reductions in consumption and investment as a proportion of total economic effort. Revenue measures are designed to reduce sharply the excess purchasing power. Consumer goods prices evidently will not be reduced this year.

The total real expenditures from the budget, derived by eliminating fictitious entries,* will increase by 16 billion rubles over the 1954 plan, and real revenues will increase by 33 billion rubles (See Table I). The level of budgeted funds should allow the Soviet Union to realize the major industrial goals of the Fifth Five Year Plan (with the possible exception of capital investment), to increase substantially the procurement of new and modern military hardware, to continue to enlarge the absolute output of consumer goods, and possibly to improve the efficiency of economic administration.

The Soviet Union has thus apparently decided to improve its already formidable military capability, but does not intend to implement an immediate all-out mobilization.

Defense Expenditures

This year's budget allocates 112.1 billion rubles for explicit military expenditures. These expenditures will be at a postwar high if the allocation is completely utilized, although there is considerable evidence to indicate that no recent

*In this year's budget, there is only one clearly fictitious entry under both expenditures and revenue. This is an entry of 22.5 billion rubles for increased procurement and purchase prices in agriculture. In 1953 and 1954, there was a second fictitious entry, an allocation to cover the annual price reductions on consumer goods. The size of the total budget is thus artificially inflated less in 1955 than it was in 1953 and 1954.

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defense budget has been fully spent. Corresponding allocations for earlier years were 100.3 billion rubles in 1954, 110.2 billion rubles in 1953, and 113.8 in 1952, the highest postwar year. However, in 1952 only slightly more than 108 billion rubles were actually expended (see Table II). The amount officially announced each year is believed to cover the cost of maintaining and training the military establishment and to cover the cost of procuring military end items. The explicit allocation for defense does not cover investment in, or operations of, plants where developmental research on new weapons takes place.

If, as seems likely, the personnel strength and administrative costs of the Soviet military establishment remain relatively unchanged, the increase in the allocation to the military establishment of 12 percent will be utilized primarily for procurement of military end items. In monetary terms, provision for procurement of weapons and equipment could increase over that provided in the 1954 budget by a maximum of about 15 percent, bringing allocations for military procurement to a postwar peak. Production of military items in 1955 may not increase by this much, however, since some of the allocations may be devoted to production in future years.

A part of this increase probably resulted from a Soviet decision that the international situation required greater military preparedness, and perhaps also from a decision to increase military assistance to the Satellites and China. The rise is also partly a result of the increasing cost of modern, complex weapons with which the Soviet armed forces are being re-equipped, and may reflect long planned increases in output of certain specific types of equipment.

Expenditures on Heavy Industry

Planned allocations from the budget to heavy industry are to increase by a very large amount--more than 21 billion rubles over the 1954 level. Investment in heavy industry, however, is scheduled to increase only 3.5 billion rubles (see Table III). This contrast between the very large increase in total allocations and the fairly small increase in investment cannot be satisfactorily explained, since in recent years the two have increased proportionately. In addition to capital investment, allocations from the budget to heavy industry have historically included such items as capital repairs, subsidies, and increments to working capital. Aside from changes in accounting procedures, there is no apparent reason for such expenses to jump suddenly this year.

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There are, however, several possible explanations for this increase. Atomic energy expenditures in recent years are believed to have been included in the "other" category of "financing the national economy." Since the "other" category is to include 8 billion rubles less in 1955 than in 1954, some atomic energy expenditures may have been transferred elsewhere in the budget, perhaps to the allocation for heavy industry. The increase under heavy industry is much greater, however, than the decrease in the "other" category.

It is also possible that major increases in expenditures connected with a new or developing military program--such as pre-serial production of guided missiles--may be included in this part of the budget.

Expenditures for Agriculture and Consumer Goods

Allocations from the budget to agriculture and the consumer industries are scheduled to decline by 12 and 15 percent in 1955. Investment in these parts of the economy, however, will probably decline by a lesser amount and will still be far above the 1952-1953 level. As a result of this and of the high rate of investment in these sectors during 1954, there probably will not be any substantial downward revision of "new course" goals for 1955. The rate of expansion in consumer sectors of the economy, however, will definitely fall below the 1954 planned rate.

Since most of the decline in budget allocations to agriculture apparently resulted from elimination of subsidies to state farms, most elements of Soviet agriculture, particularly the "new lands" program, should continue to receive increasing attention.

Social Cultural Expenditures

Expenditures for social and cultural purposes are to increase moderately from 141.6 billion rubles in 1954 to 146.9 billion in 1955. The fact that these expenditures are continuing to increase is further evidence that the Soviet Union intends to achieve a gradual increase in strategic capability, rather than immediate, all-out mobilization.

Capital Investment

Total capital investment in the USSR is scheduled to drop slightly to 167.2 billion rubles in 1955 (see Table III). Since investments in heavy industry and transport and communications combined are to increase about 4 percent, the

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decrease must come from other sectors of the economy. The failure of investment outlays to increase substantially jeopardizes the achievement of the capital investment goal of the Fifth Five Year Plan. It is estimated that a 7 percent increase in the real volume of investment will be required in 1955 to fulfill the Fifth Five Year investment plan. Under the 1955 budget, this plan probably would not be fulfilled even if planned cost reductions were achieved.

The slight decline in investment in the 1955 budget presumably reflects an unwillingness to increase long-range commitments, and a decision to direct the increment of the economy's growth to end item production, of which an important share apparently is to be devoted to military production.

The decision to reduce the rate of growth in investment may also have been influenced by the difficulties which the Soviet Union has encountered in completing investment projects. In words similar to those used two months earlier by Khrushchev at the Soviet construction conference, Finance Minister Zverev noted that the volume of unfinished building was increasing, and that it would be necessary in 1955 to concentrate on the completion of already planned projects, rather than launch a large number of new projects. Construction appears to be the lagging element in the investment program, and the lag in construction, which has resulted in an increase in the volume of unfinished projects, is probably a result of shortages of construction materials.

The primary function of the 1955 investment plan is apparently to concentrate on the completion of current projects without placing increased demands on resources.

Administrative Expenditures

Administrative expenditures are to be reduced more than 10 percent, from 13.9 billion rubles in 1954 to 12.6 billion for the current year. Throughout 1954 the Soviet regime has placed heavy emphasis on the need for reducing administrative costs, and the new budget shows that this effort will continue.

As a part of this drive for economy and efficiency, a number of new republic ministries were set up in 1954, in charge of former all-union activities, such as the Ministries

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of the Oil Industry in Azerbaidzhan, and Ferrous Metallurgy in the Ukraine. The budgets for these republics did not change substantially, indicating that the new republic ministries are still to receive their investments and other new resources from the all-union budget, and have been established as decentralized entities only for purposes of administration.

Revenues of the Budget

Revenue measures outlined in the budget are designed to reduce sharply the excess purchasing power of the Soviet population, which has resulted from the fulfillment a year ahead of time of the Five Year Plan goal for increasing total wages. This has been caused by widespread increases in employment beyond planned levels by economic enterprises, and by the cumulative effects of successive price reductions on consumer goods during the period 1950 through 1954. The excess purchasing power will be reduced by the doubling of the annual state loan, which will return to the 1952 level. Furthermore, the budget indicates that no significant reduction in the prices of consumer goods will occur this year.

Increased deductions from profits of state enterprises and the doubling of the state loan are to be the primary sources of increased revenues. Turnover taxes are planned to yield somewhat less in 1955 than in 1954, 233.2 billion rubles as opposed to 234.4 billion last year. The plan seems abnormally low, since trade turnover in 1955 was scheduled to have been at least 10 percent higher than in 1954. The most likely cause of this reduction is that turnover tax rates are to drop and thus allow the profits of producing enterprises to rise. The state then would receive increased revenue in the form of deductions from profits rather than from turnover taxes, and could claim that the burden on the population has thus been reduced. The reduction in turnover tax may simply mean, however, that the 1955 goal for trade turnover has been revised downward.

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TABLE I

	Billions of rubles	
	1954 (Plan)	1955 (Plan)
<u>Soviet Budget Expenditures</u>		
Financing the national economy	216.4	222.4
Heavy industry	79.7	101.2
Light and Food industry	12.6	10.6
Agriculture & Procurement	62.5	55.1
Transport & Communications	21.5	23.0
Other	40.1	32.5
Defense expenditures	100.3	112.1
Social & Cultural expenditures	141.4	146.9
Other known allotments	30.9	24.8
Undisclosed residual	34.8	34.2
TOTAL REAL EXPENDITURES	<u>523.8</u>	<u>540.4</u>
Artificial expenditures	39.0	22.5
Total Announced expenditures	562.8	562.9
<u>Soviet Budget Revenues</u>		
Turnover Tax	234.4	233.2
Deductions from profits of enterprises	92.8	117.5
Taxes on population	45.7	48.4
State loans (including increase in savings of pop.)	27.4	42.5
Other revenue	133.2	125.5
TOTAL REAL REVENUES	<u>533.5</u>	<u>567.1</u>
Artificial revenue	39.0	22.5
Total Announced revenue	572.5	589.6

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TABLE II

Announced Soviet Defense Expenditures, 1936-1955

Billions of current rubles

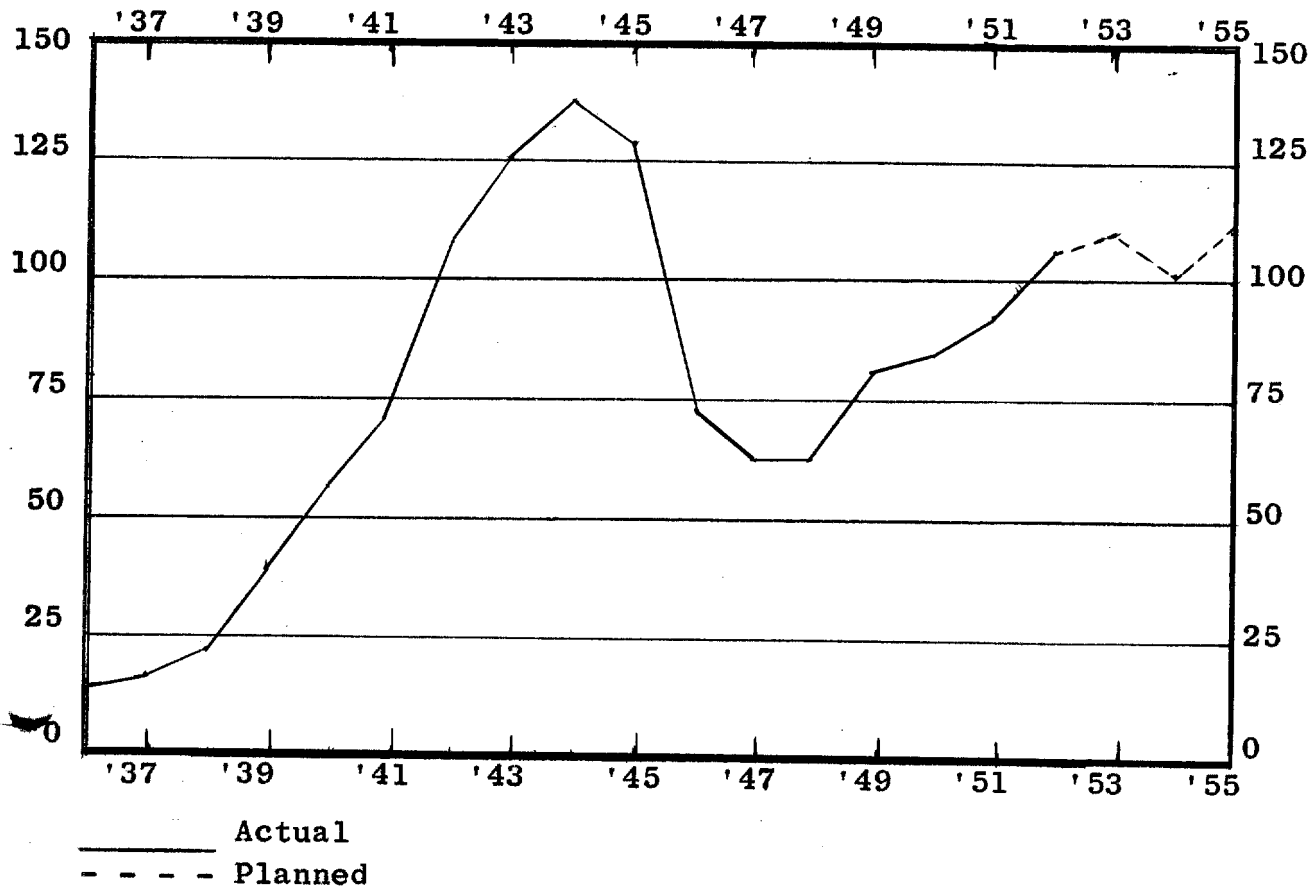


TABLE III
Capital Investment

	Billions of rubles		
	1953 Actual	1954 Plan	1955* Plan
Heavy Industry	80.0	90.0	93.5
Light and Food Industry	7.6	14.0	(12.3)
Agriculture and Procurement	12.0	21.0	(20.1)
Trade and Cooperatives	2.0	4.0	(3.7)
Transport and Communications	17.7	18.6	(21.0)
Other	N.A.	21.4	(16.6)
TOTAL	N.A.	169.0	167.2

*Figures in parentheses are estimates calculated from the changes in the announced total allocations to the respective sectors.

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